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TO STUDY THE RELATIONSHIP OF FINANCIAL LITERACY AND INVESTMENT BEHAVIOUR OF SALARIED CLASS INDIVIDUALS OF DELHI

Sangeeta Gupta

Assistant Professor, Department of Commerce, Delhi College of Arts & Commerce, University of Delhi, Netaji Nagar, New Delhi-110023.

ABSTRACT

Financial literacy comprises of skills and knowledge that enables the individual to understand the principles of finance that an individual requires to know to make informed financial choices and decisions and also the financial products that influence the financial well-being of an individual. With the advent of technology and explosion of information it is difficult for an individual to evaluate risk associated with the new genre of financial products. Invariably, bare minimum financial literacy level is must for an individual to understand risk and return related to financial products. The current study attempted to examine the association between financial literacy of salaried individuals of Delhi and their awareness index related to various products of finance. The study also investigated the association between level of financial literacy and salaried individual's investment behaviour. The data was collected through the structured questionnaire from the salaried individuals residing within Delhi, 180 useable questionnaires were received. The data was analysed using SPSS 16, T- test and Chi-square test. The results revealed that salaried individuals level of financial literacy of individuals have effect on their financial products awareness as well as their investment preference. It is recommended to bridge the gap of research studies by including all sections of the society.

KEYWORDS: Financial literacy level, Financial products, Preference of investment, salaried class individuals

INTRODUCTION

Over the past decades financial literacy has gained tremendous attention and importance due to the growing belief by individuals to be more self reliant in the future. The study of financial literacy, in a country, is of great significance to all sections of the society. Be it the academicians, the policymakers or the financial market participants – investors or borrowers. The increased alternatives available amongst the financial products and services and growing complexity of financial markets have exposed the individuals for sophisticated choices they may need to make. New generation has wide variety of generating and disposing their income. At the same time changes in work culture has led to inconsistent incoming income resulting in high to low and may be no income period. With advanced health technology available the longevity has increased which demands greater planning for retirement health care and insurance for unseen and uncertain future contingencies. Given all this, individuals need to be more financial literate to be in control of their own circumstances and have more promising secured future. So, financial literacy education is the tool which can help and prevent the vulnerable sections of society from becoming easy victims of the monster named credit system. Indian policy makers have realised the potential of financial literacy in life skill and have advised to incorporate it as one important aspect of our education system. In turn it will help in complimenting consumer protection inclusion and prudential regulation. There are many organisations like Reserve bank of India, Ministry of Corporate affairs, Ministry of human resource Development, Securities and Exchange Board of India, Insurance Regulatory and Development authority, NABARD, OECD who have put their hands together to provide financial education .The objective of the initiatives taken by all of these organisations are to empower the people on the subject of personal finance by providing them with basic knowledge of planning their expenses against their incomes, along with incorporating saving habit for their future to lead a life which can make their future full of happiness.

An individual having some income, even a low level, becomes a financial consumer as soon as he wishes to safeguard his income, transfer or invest it for a future benefit and protect it from risks etc. Here, comes the role of financial education that will help him acquire all these facilities related to his income and become an active player in financial markets. On the basis of individual's level of financial literacy, his degree of market participation can be explained under different categories as the (i) one who does not have any access to formal or informal financial system in the country; (ii) one who has access to but limited to only few financial services and banking system; (iii) one who has access to all markets but finds financial products very complex / mismatch in availability of products and services and his requirements and (iv) one who is financially capable but face information inequalities. Lack of banking knowledge / habits, high transaction and opportune costs, inaccessibility, proximity issues and insufficient infrastructure etc impede his financial markets participation.

The necessity of financial literacy is recognized when it is put in the landscape of the following developments in the financial space:

Innovation of financial products and services:
Now the financial services are accessible to more of the consumers through growing network of distribution channels of service providers. The factors like deregulation and liberalization of financial products, modernisation and development of information and telecommunications etc. have made available the tailored products for the consumers. Results in having a broad panel of alternatives to safely park their savings. The deep understanding is desired on part of the consumers to make best of the use of the available new innovative products to trade off between risk and return associated with the innovations.

Increasing attractiveness of the domestic financial markets:
As a result of Industrial policy 1991, many structural changes in the financial markets have been made in India resulting in LPG i.e. liberalisation, privatisation and globalisation. It made the financial markets open to the retail consumers and foreign investors to increase inflow of savings and investments to enhance economic growth rate.

With less of barriers and more of promising investment policies lot of foreign investors entered the Indian financial markets with newer financial products. On entry, these companies started providing customised and generalised financial solutions and easy credit to capture the share of market to the maximum .But the Indian consumers are not having adequate knowledge and experience about the financial products and services working. Hence are not able to gain as per the expectations and loose the trust in the modern financial market as a whole and continued with old ways of money management and investment. Thus are not able to derive benefit out of the new avenues offered by these companies.

Complex nature of financial products and services:
Inability to tap opportunities in the form of new emerged financial market led the consumers feel dissatisfied with the financial systems.

The speed with which market is changing as a result of emergence of new financial instruments and easy access to credit left the consumers in a state of confusion as which one to decide and what to choose. The provided financial solutions can be seen as instruments available for financing future consumption based on current income and services of available credit such as loans. Loans are the instruments for the purpose of financing current consumption based upon the future income. In turn loans are dependent on person's financial needs and abilities to gain access to these assets and liabilities. The households have different financial need and resource availability depending upon their life cycle stage which further affects the sequence of acquiring these financial services by the households.

Gain insights of these multifaceted features of financial instruments ,is not at all easy for an average person as it involves greater perceived risk, complex decision making due to the need to search more of the information to arrive at the comparative advantages of the various instruments and select amongst the provided credit options, resulting in delayed decision making.

Changing family structure:
With the changing family structure towards more of nuclear families, individuals owe to make numerous financial decisions pertaining to saving, spending, investment, credit etc. on their own. Having more of responsibility in planning their future keeping in mind the associated healthcare needs. Also need to plan

for the education of their children which is getting expensive day by day.

Longevity and transfer of risk:
Increased life expectancy has led people to do financial planning more actively for their retirements with expanded insurance and to cover unseen contingencies. Since the last couple of years, there has been a shift of risk from the government and private employers to individuals by making individuals responsible for their own retirement by withdrawing and reducing state supported pensions. Hence individuals are required to consider not just the trade off between risk and return of the investments but also plan their life expectancy related uncertainties, ways to adverse risk, probable changes in the social and personal circumstances and so on.

Technological advancements and market innovations:
Modern technology has transformed each and every aspect of financial products and services from processing to delivery. The advent of e-commerce with the expansion of internet as latest means of communication has enabled the financial market providers to sell and market their services and products more rigorously and effectively. This technological breakthrough helps the consumer in acquiring greater information without wasting of time and without any geographical limitations. But to utilise the best of the benefits consumers has to be financially literate and knowledgeable Therefore, ultimate aim of financial literacy is enhancement to bring the above individuals from lower category to a higher category for his well being at micro level. At macro level, the absence of large number of market participants will hinder the financial broadening process in the market. In nut shell, the immediate fallout of low or negligible financial education among the people of a country will be the lack of access to financial markets at all or lack of access to appropriate, low cost, fair and safe financial products and services provided by the market.

Hence, a tremendous effort is required to provide financial knowledge to individuals so as to make them capable enough to participate in the financial markets. There is a dire need to change the mindset of a common man first to be a saver, and then from being a saver to being an investor. This can be achieved only if they are equipped with the sufficient financial knowledge. This will help them make informed decisions by themselves or choose right fund managers and products.

Empirical Studies Review
OECD Study (2005), conducted a survey in selected five countries namely Australia, Japan, Korea, United States, and the United Kingdom, with an objective to investigate financial literacy skills and knowledge possessed by people and to establish a base to measure financial literacy for policy makers and for various financial institutions. Among which were, all the surveys as a whole found lower level of financial literacy among respondents. The surveys found that respondents claimed to have more knowledge of financial matters that is actually the case. It was found that respondents felt that it is difficult to find and understand the financial information.

Hussein A. Hassan Al-Tamimi, Al Anood Bin Kalli (2009), the purpose of this paper was to examine the financial literacy of the UAE individual investors who invested in the local financial markets. The results indicated that the financial literacy of UAE investors is far from the needed level. The factors affecting financial literacy level was found to be income level, education level, and workplace activity. A significant difference in the level of financial literacy on the basis of gender was found between the respondents.

Samudra and Burghate (2012), examined the investment behaviour of the middleclass households in Nagpur. It was found that bank deposits was the most preferred investment instrument followed by insurance, PPF.It was also found that factors affecting investment decision was return from the investment.

Chaturvedi and Khare (2012), investigated the investment pattern and awareness of the Indian investors related to different investment instruments. The results indicated the age, education, income level and occupation if the respondents affect the investment behaviour. Awareness of respondents related to traditional investment alternatives is much higher than of corporate securities, mutual funds, equity shares and preference shares.

Bashir et al (2013), investigated the investment preferences and risk level of salaried individuals in Gujrat and Sialkot provinces of Pakistan. The results suggested that women were more risk averters as compared to males whereas young and educated people preferred more risky investment alternatives but hesitated because of limited resources.

Bhushan and Medury (2013) investigated the financial literacy level of salaried individuals in India. It was found that level of financial literacy gets affected by gender, education, and income, nature of employment and place of work.

Research Objectives
1. To examine the relationship between financial literacy level of salaried class individuals and their financial products awareness level

2. To examine the relationship between financial literacy level of salaried class individuals and their preference of investment of various financial products.

Research Hypotheses
1. **H0:** There is no significant association between financial products awareness level of salaried class individuals and their financial literacy level

   H1: There is a significant association between financial products awareness level of salaried class individuals and their financial literacy level

2. **H0:** There is no significant association between financial products investment preference of salaried class individuals and their financial literacy level

   H1: There is a significant association between financial products investment preference of salaried class individuals and their financial literacy level

RESEARCH METHODOLOGY
For the current study, Delhi is considered as the population of the study. The individuals of salary class of Delhi working either in government or non-government organisations were considered as the population. The primary data was collected through the structured questionnaire. Utmost care was taken while framing questions to gather maximum and more relevant information by providing multiple choices close ended questions. The method used was non-probability, convenience sampling. 200 questionnaires were distributed but only 180 of them were useable. The level of financial literacy was measured using performance test comprising of 50 questions pertaining to basic financial concepts and financial products. Also to gain deep insights into the research area the secondary sources of data collection was used like books, research journals, magazines, newspapers, web sites, online published reports national or international etc. The data was analysed using SPSS 16.0, Hypothesis 1 was tested by T- test and Hypothesis 2 was tested by Chi-square test. Both the Hypotheses were test at 5% significance level.

Data Analysis & Interpretation
The data collected through the respondents was analysed and tabulated below to examine the research objectives.

Table 1: Respondents Demographic & Social Profile

Variables	Categories	Number	Percentage
Gender	**Male**	**110**	**61.11**
	Female	70	38.88
Age	20-30	38	21.11
	31-40	48	26.66
	41-50	54	30
	51-60	29	16.11
	Above 60 years	11	6.11
Marital Status	Unmarried	57	31.66
	Married	123	68.33
Education	10+2	35	19.44
	Graduation	81	45
	Post Graduation	55	30.55
	Doctorate	9	5
Monthly Income	2-5 Lacs	99	55
	5-10 Lacs	72	40
	10-15 Lacs	9	5
Occupation	Government	85	47.22
	Non-Government	95	52.77

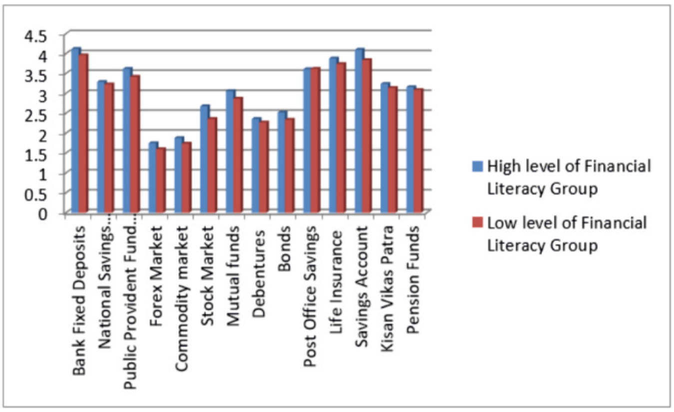
Financial Literacy Level: Measurement
From the 50 questions to measure financial literacy of the respondents, questions related to basic financial literacy were 20 and advanced financial literacy consists of 30 questions. The percentage of median of correct answers of the sample respondents is used to find out financial literacy level and to further divide them into subgroups. The respondents who had scores above median were considered as High level of financial literacy group and respondents who had scores equal to or less than median were considered as Low level of financial literacy group. The results indicated that on an average respondent answered 54 percent of the questions correctly.

ANALYSIS & RESULTS
Financial Literacy level and financial products awareness
To examine the relationship between financial products awareness level of salaried class individuals and their financial literacy level, respondents were grouped into two groups as "High level of Financial Literacy Group" and "Low level of Financial Literacy Group". Awareness Level Mean Score of the respondents were calculated and contrasted. Table 2 and figure 1 exhibits the awareness level of salaried class individuals of High level of Financial Literacy Group and Low level of Financial Literacy Group.

Table 2 : Financial products awareness level of High and Low level of Financial Literacy Group

Financial products	Awareness Level Mean Score		T-Value	Significance Level
	High level of Financial Literacy Group	Low level of Financial Literacy Group		
Bank Fixed Deposits	4.12	3.96	-2.62	0.008
National Savings Certificate	3.29	3.23	-0.603	0.545
Public Provident Fund (PPF)	3.62	3.42	-2.374	0.017
Forex Market	1.75	1.6	-1.852	0.063
Commodity market	1.88	1.74	-1.672	0.94
Stock Market	2.68	2.36	-3.364	0.001
Mutual funds	3.06	2.87	-2.095	0.036
Debentures	2.36	2.27	-1.021	0.306
Bonds	2.52	2.34	-1.981	0.047
Post Office Savings	3.61	3.62	0.149	0.88
Life Insurance	3.88	3.74	-1.736	0.082
Savings Account	4.1	3.84	-4.269	0.001
Kisan Vikas Patra	3.24	3.14	-1.173	0.24
Pension Funds	3.16	3.09	-0.628	0.528

Figure 1 Bar Chart of Financial products awareness level of High and Low level of Financial Literacy Group



Results revealed that respondents of High level of Financial Literacy Group shown higher financial products awareness level except for post office savings as the mean difference for it was not statistically significant.

The results of T-test shown the statistically significant differences in financial products awareness level for Bank deposits, savings account, PPF, Mutual Fund, investments in Stock market and bonds. It can be stated that level of financial literacy affects the financial products awareness. Hence, null hypothesis is rejected.

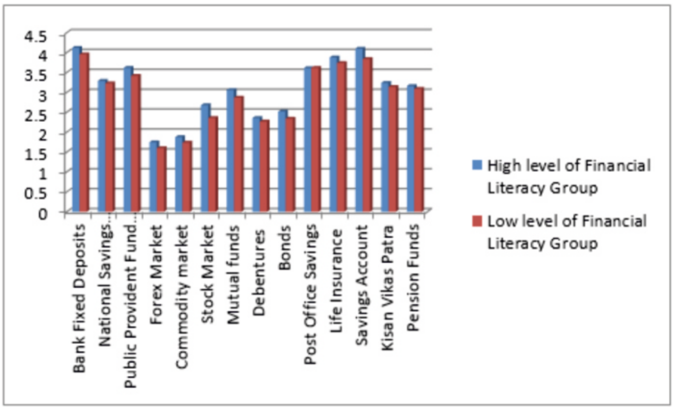
Financial Literacy level and Financial products Investment Preference

To examine the relationship between financial products investment preference of salaried class individuals and their financial literacy level respondents were grouped into two groups as "High level of Financial Literacy Group" and "Low level of Financial Literacy Group". Table 3 and figure 2 exhibits the Investment preference of various financial products of salaried class individuals of High level of Financial Literacy Group and Low level of Financial Literacy Group. Results revealed that respondents in High level of Financial Literacy Group showed higher preference for mutual funds, investment in stock market, life insurance, debentures, PPF, pension, bonds and Commodity market in contrast to those in Low level of Financial Literacy Group. The respondents of Low level of Financial Literacy Group showed higher preference for bank deposits and post office savings. It can be stated that respondents who falls in Low level of Financial Literacy Group prefers to invest in traditional and secure and less risky financial products. The value of Chi-square found to be 37.13 which is statistically significant at 5 % significance level, showed that investment preference of salaried class individuals and their financial literacy level are related. Hence, null hypothesis is rejected.

Table 3: Financial Products Investment preference of High and Low level of Financial Literacy Group

Financial Products	High level of Financial Literacy Group		Low level of Financial Literacy Group		Chi-Square Value
	Number	Percentage	Number	Percentage	
Bank Deposits	29	35.36	30	30.61	37.13
Public Provident Fund (PPF)	7	8.53	13	13.26	
Commodity market	2	2.43	1	1.02	
Stock Market	5	6.09	4	4.08	
Mutual funds	9	10.97	8	8.16	
Debentures	2	2.43	2	2.04	
Bonds	3	3.65	3	3.06	
Post Office Savings	8	9.75	17	17.34	
Life Insurance	13	15.85	15	15.30	
Pension Funds	4	4.87	5	5.10	
Total Respondents	82		98		

Figure 2 Bar Chart of Financial Products Investment preference of High and Low level of Financial Literacy Group



CONCLUSION

It can be concluded that majority of the respondents were falling into Low level of Financial Literacy Group. The median percentage of the correct answers for the respondents towards the financial literacy level measurement found to be 54.It can also be concluded that respondents in High level of Financial Literacy Group possess higher financial products awareness level except for post office savings. For bank deposit, savings account, PPF, Mutual Funds, investment in Stock market and bonds, the differences found to be statistically significant. It can also be concluded that respondents in low level of Financial Literacy Group prefers to park their money in more traditional and safe financial products irrespective of considering higher returns with higher risk notion. In nut shell the level of financial literacy affects the financial products awareness level along with the investment preference related to financial products. Hence it is more imperative for government, academicians and policy makers to take remedial measures to enhance financial literacy level of salaries individuals

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